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6 **IN THE UNITED STATES DISTRICT COURT**  
7 **FOR THE DISTRICT OF ARIZONA**  
8

9 Hillstone Restaurant Group Incorporated,

10 Plaintiff,

11 v.

12 Houston's Hot Chicken Incorporated, et al.,

13 Defendants.  
14

No. CV-22-02004-PHX-MTL

**ORDER**

15 Before the Court is Plaintiff Hillstone Restaurant Group Inc.'s ("Hillstone") Motion  
16 for Contempt and Preliminary Injunction. (Doc. 26.) For the following reasons, the Court  
17 denies Plaintiff's Motion for Contempt and grants Plaintiff's Motion for Preliminary  
18 Injunction.

19 **I. BACKGROUND**

20 **A. Procedural History**

21 Plaintiff filed a Complaint alleging that Defendants materially breached a trademark  
22 settlement agreement (the "Agreement") between the parties and knowingly and willfully  
23 infringed Plaintiff's trademarks. (Doc. 1, ¶ 1.) Plaintiff then filed a Motion for a Temporary  
24 Restraining Order ("TRO") and Preliminary Injunction on the same facts. (Doc. 2.) At a  
25 status conference on November 30, 2022, the Court granted Plaintiff's Motion for TRO  
26 and a TRO was entered to extend through January 5, 2023. (Docs. 19, 21.) The Court  
27 denied Plaintiff's Motion for Preliminary Injunction without prejudice for refile if  
28 necessary. (Doc. 19.) The parties filed a Joint Status Report on Plaintiff's need for a

1 preliminary injunction (Doc. 22). Plaintiff then filed a Motion for Contempt and  
2 Preliminary Injunction. (Doc. 26.) The Motion has been fully briefed and the Court held  
3 oral argument on January 4, 2023.

4 **B. Factual Background**

5 The Court makes the following factual findings based on Plaintiff's Complaint, the  
6 parties' briefing, and the arguments presented at the January 4, 2023 hearing.

7 Hillstone owns and operates restaurants across the United States, including under  
8 the HOUSTON'S service marks. (Doc. 26-1 at 5.) Hillstone has used the HOUSTON'S  
9 Mark since 1977, and the United States Patent and Trademark Office ("USPTO") issued  
10 Hillstone federal registrations for the HOUSTON'S Mark and related marks in 1979. (*Id.*)

11 Defendant Houston Crosta founded Houston's Hot Chicken Inc. and its related  
12 entities. (*Id.*) Defendants currently have five United States locations, including some that  
13 are operated by franchisees. (*Id.*) Defendants and their franchisees have a notable social  
14 media presence and have announced that additional restaurant locations will be opened in  
15 the near future. (*Id.*) Defendants filed an intent-to-use application to register the  
16 HOUSTON'S HOT CHICKEN Mark in connection with restaurant services. (*Id.*) The  
17 USPTO rejected Defendants' application, citing a likelihood of confusion with Hillstone's  
18 HOUSTON'S Marks. (*Id.*) Defendants abandoned their application on May 18, 2022. (*Id.*)

19 On May 6, 2022, Hillstone sent Defendants a cease-and-desist letter regarding  
20 Defendants' use of HOUSTON'S HOT CHICKEN Marks. On July 25, 2022, Defendants  
21 filed an action in Nevada against Hillstone seeking declaratory relief. On September 28,  
22 2022, Plaintiff filed a lawsuit in this Court against one of Defendants' franchisees for  
23 trademark infringement. Between August 1 and October 7, 2022, the parties engaged in  
24 settlement negotiations. The parties entered into the Agreement on October 7, 2022,  
25 requiring that Defendants cease use of the HOUSTON'S HOT CHICKEN Mark in  
26 connection with their restaurants by November 10, 2022. On October 13, 2022, both the  
27 Nevada and Arizona lawsuits were voluntarily dismissed. At some time after November  
28 10, 2022, Plaintiff sent Defendants a notice of breach of the Agreement and provided

Defendants 10 days to cure their breach. Plaintiff then filed this action on November 23, 2022.

## II. INJUNCTIVE RELIEF STANDARD

“A preliminary injunction is ‘an extraordinary and drastic remedy, one that should not be granted unless the movant, *by a clear showing*, carries the burden of persuasion.’” *Lopez v. Brewer*, 680 F.3d 1068, 1072 (9th Cir. 2012) (quoting *Mazurek v. Armstrong*, 520 U.S. 968, 972 (1997) (per curiam)) (emphasis in original); *see also Winter v. Nat. Res. Def. Council, Inc.*, 555 U.S. 7, 24 (2008) (citation omitted) (“[a] preliminary injunction is an extraordinary remedy never awarded as of right.”). A plaintiff seeking a preliminary injunction must show that (1) he is likely to succeed on the merits, (2) he is likely to suffer irreparable harm without an injunction, (3) the balance of equities tips in his favor, and (4) an injunction is in the public interest. *Winter*, 555 U.S. at 20. “But if a plaintiff can only show that there are ‘serious questions going to the merits’—a lesser showing than likelihood of success on the merits—then a preliminary injunction may still issue if the ‘balance of hardships tips *sharply* in the plaintiff’s favor,’ and the other two *Winter* factors are satisfied.” *Shell Offshore, Inc. v. Greenpeace, Inc.*, 709 F.3d 1281, 1291 (9th Cir. 2013) (quoting *All. for the Wild Rockies v. Cottrell*, 632 F.3d 1127, 1135 (9th Cir. 2011)) (emphasis in *Shell Offshore*). Under this “serious questions” variant of the *Winter* test, “[t]he elements . . . must be balanced, so that a stronger showing of one element may offset a weaker showing of another.” *Lopez*, 680 F.3d at 1072. Regardless of which standard applies, the movant “has the burden of proof on each element of [the] test.” *See Envtl. Council of Sacramento v. Slater*, 184 F. Supp. 2d 1016, 1027 (E.D. Cal. 2000).

## III. ANALYSIS

### A. Likelihood of Success on the Merits

Plaintiff’s Complaint alleges that Defendants materially breached the Agreement, engaged in unfair competition, and infringed Plaintiff’s trademark rights by failing to comply with several material terms in the Agreement related to the Defendants’ promise to stop using the HOUSTON’S HOT CHICKEN Marks. (Doc. 1, ¶¶ 73-108.) Plaintiff

1 seeks a favorable judgment, monetary damages, and injunctive relief. (*Id.* at 18-20.) For a  
2 preliminary injunction to issue, Plaintiff must show that it has a likelihood of succeeding  
3 on its claim for breach of contract. “It is well established that, in an action based on breach  
4 of contract, the plaintiff has the burden of proving the existence of a contract, breach of the  
5 contract, and resulting damages.” *Chartone, Inc. v. Bernini*, 83 P.3d 1103, 1111 (Ariz. Ct.  
6 App. 2004).

7 Plaintiff asserts that the Agreement is valid and binding because “it was fully  
8 negotiated between represented parties and is signed by authorized representatives.” (Doc.  
9 26 at 13.) Defendants do not appear to dispute that there is a valid, binding contract in  
10 place. (*See* Doc. 26-1 at 5.) Regarding breach of contract, Plaintiff alleges that Defendants  
11 are in breach of at least Sections 1(c) and 1(f) of the Agreement by continuing to use the  
12 HOUSTON’S HOT CHICKEN Marks on social media, interior signage, wall art, displays  
13 and uniforms in the Cerritos, California store, and paper products, including wax paper tray  
14 liners, cups, bags, and to-go boxes, at all its locations. (Doc. 26 at 13.) Plaintiff also alleges  
15 that Defendants failed to notify their franchisees of the TRO and Agreement. (*Id.*) Plaintiff  
16 cites to evidence of Defendants’ breach in the form of photographs of signage from the  
17 Cerritos store, screen grabs from Defendants’ social media pages, and Defendants’  
18 purported notices to franchisees that Plaintiff considers inadequate under the terms of the  
19 Agreement. (Doc. 26 at 6-8; Doc. 30 at 9). Plaintiff also asserts, as part of its arguments on  
20 irreparable harm, that Defendants’ alleged breach of the Agreement has caused Plaintiff  
21 damages, including that customers will be misled “into believing Defendants’ restaurants  
22 are operated by, associated or affiliated with, or sponsored or endorsed by Hillstone” and  
23 will “cause Hillstone to lose its ability to control the goodwill associated with its  
24 HOUSTON’S Mark.” (Doc. 26 at 15-16.)

25 Defendants do not argue that Plaintiff is unlikely to succeed on its breach of contract  
26 claim. Instead, Defendants argue that “[a]bsent the Lanham Act claims [for trademark  
27 infringement], this Court would have no subject matter jurisdiction over the Settlement  
28 Agreement.” (Doc. 27 at 13.) Thus, according to Defendants, the proper likelihood of

1 success analysis would necessarily require an analysis of the likelihood of confusion of the  
2 competing marks, which the parties have not briefed. (*Id.*) Defendant relies on *Kokkonen*  
3 *v. Guardian Life Ins. Co.*, 511 U.S. 375 (1994). Plaintiff responds that *Kokkonen* is  
4 inapposite, and this Court has supplemental jurisdiction over Plaintiff’s state law breach of  
5 contract claims. The Court agrees with Plaintiff.

6 District courts have original jurisdiction over “all civil actions arising under the  
7 Constitution, laws, or treaties of the United States.” 28 U.S.C. § 1331. Where a court has  
8 original jurisdiction over at least one claim, the court also has “supplemental jurisdiction  
9 over all other claims that are so related to claims in the action within such original  
10 jurisdiction that they form part of the same case or controversy.” *Id.* § 1367(a). To  
11 determine whether claims form “part of the same case or controversy,” the court must  
12 evaluate whether the federal claims and state law claims “involve a common nucleus of  
13 operative facts.” *In re Pegasus Gold Corp.*, 394 F.3d 1189, 1195 (9th Cir. 2005) (citation  
14 and quotation omitted).

15 In *Kokkonen*, the parties entered into a settlement agreement on state law claims that  
16 were in federal district court pursuant to diversity jurisdiction. 511 U.S. at 376–77. Upon  
17 notice of settlement, the district court judge dismissed the case with prejudice. *Id.* Neither  
18 the court’s dismissal order nor the settlement agreement at issue contemplated that the  
19 district court would retain jurisdiction to enforce the settlement agreement. *Id.* at 380–82.  
20 Nevertheless, the court entered an order to enforce the settlement agreement after a dispute  
21 arose between the parties. *Id.* at 377. On appeal, the Supreme Court held that absent the  
22 district court’s express retention of jurisdiction to enforce the settlement agreement,  
23 “enforcement of the settlement agreement is for state courts, unless there is some  
24 independent basis for federal jurisdiction.” *Id.* at 382.

25 Defendants do not rely on, nor is the Court independently aware of, any case law  
26 requiring a preliminary injunction analysis to focus on the likelihood of success of only  
27 claims arising under federal jurisdiction. Although Defendants attempt to rely on  
28 *Kokkonen*, that case is distinguishable because the Court has an independent basis for

1 federal jurisdiction over this case, namely, the federal trademark infringement claims. The  
 2 Court has inherent authority to exercise supplemental jurisdiction over the pendant state  
 3 law claims. *Acri v. Varian Assocs., Inc.*, 114 F.3d 999, 1001 (9th Cir. 1997). Defendants  
 4 do not dispute that the Court can exercise supplemental jurisdiction over Plaintiff's state  
 5 law breach of contract claim.<sup>1</sup> Because the Agreement addresses the parties' respective  
 6 rights and responsibilities related to their use of federally registered trademarks and the  
 7 trademark infringement claims at issue in the prior lawsuits, the Court finds that the claims  
 8 "involve a common nucleus of operative facts" such that supplemental jurisdiction over  
 9 Plaintiff's breach of contract claim is proper. *In re Pegasus Gold Corp.*, 394 F.3d at 1195.

10 The Court finds that Plaintiff has provided sufficient evidence to establish a  
 11 likelihood of success on its breach of contract claim, including on Defendants' breaches of  
 12 the fully executed Agreement and resulting damages. Defendants do not assert any  
 13 defenses to the existence of a valid contract or Plaintiff's breach of contract claim that  
 14 require the Court to infer otherwise at this stage.<sup>2</sup>

### 15 **B. Irreparable Harm**

16 To obtain preliminary relief, Plaintiff must show that he is likely to suffer  
 17 irreparable harm in the absence of an injunction. *Winter*, 555 U.S. at 22. Irreparable harm  
 18 is "harm for which there is no adequate legal remedy, such as an award for damages."  
 19 *Brewer*, 757 F.3d at 1068.

20 Plaintiff argues that irreparable harm is conclusively established because  
 21 Defendants concede irreparable harm in Section 7 of the Agreement, which provides that  
 22 "[t]he Parties stipulate that the breach of any material term of this Agreement will cause  
 23 irreparable harm to the Party not in breach and shall entitle that Party to specific  
 24 performance or injunctive relief to enforce the Agreement's terms." (Doc. 26 at 15)  
 25 (quoting Doc. 26-1 at 10). Plaintiff further argues that "Defendants' continuing use of

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 27 <sup>1</sup> Defendants also do not dispute Plaintiff's assertion that this Court alternatively has  
 diversity jurisdiction over this action pursuant to 28 U.S.C. § 1332.

28 <sup>2</sup> The Court notes, however, that its ruling on likelihood of success is limited to Plaintiff's  
 request for a preliminary injunction. Defendants have yet to answer Plaintiff's Complaint  
 and the Court takes no position on any defenses Defendants might assert in their pleading.

Hillstone’s HOUSTON’S Mark in violation of the Agreement is likely to mislead consumers into believing Defendants’ restaurants are operated by, associated or affiliated with or sponsored or endorsed by Hillstone.” (Doc. 26 at 15-16.) “Such confusion is likely to cause Hillstone to lose its ability to control the goodwill associated with the HOUSTON’S Mark,” creating “substantial and irreparable harm.” (*Id.* at 16.)<sup>3</sup>

Defendants argue that Plaintiff fails to provide the evidence required to establish irreparable harm, instead relying only on a “blanket, formulaic allegation that HHC’s continuing use of Hillstone’s HOUSTON’S Mark is *likely to* mislead consumers.” (Doc. 27 at 15) (emphasis in original). Defendants further argue that Plaintiff cannot show that it faces ongoing irreparable harm because Defendants have substantially complied with the TRO and continue to address any inadvertent violations. (*Id.* at 15.) Finally, Defendants argue that Plaintiff cannot rely on evidence of irreparable harm to its trademarks because its motion is based on its breach of contract claim.

“Evidence of threatened loss of prospective customers or goodwill certainly supports a finding of the possibility of irreparable harm.” *Stuhlbarg Intern. Sales Co., Inc. v. John D. Brush & Co., Inc.*, 240 F.3d 832, 841 (9th Cir. 2001). Here, Plaintiff plausibly asserts that Defendants’ breach of the material terms of the Agreement is damaging to Plaintiff’s ability to control its trademarks and associated goodwill that it has been protecting since 1977. Notably, the USPTO rejected Defendants’ intent-to-use application for its HOUSTON’S HOT CHICKEN Mark, citing a likelihood of confusion with Hillstone’s HOUSTON’S Marks. (Doc. 26-1 at 5.) Instead of arguing against the USPTO’s initial conclusion on likelihood of confusion, Defendants abandoned their application. Moreover, although Defendants argue that harm to Plaintiff’s trademarks is irrelevant to

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<sup>3</sup> Plaintiff also asserts that it is entitled to a presumption of irreparable harm under the Lanham Act because Plaintiff is likely to succeed on the merits of its trademark infringement and false designation of origin claims on its motion for preliminary injunction. (*Id.*) The Court notes, however, that Plaintiff’s likelihood of success arguments in its motion do not address trademark violations under the Lanham Act, such that the presumption cannot be applied here. *See* 15 U.S.C. § 1116(a) (“A plaintiff seeking any such injunction shall be entitled to a rebuttable presumption of irreparable harm . . . upon a finding of likelihood of success on the merits for a violation *identified in this subsection* in the case of a motion for a preliminary injunction or temporary restraining order.”) (emphasis added).



1 its breach of contract damages, the Court disagrees because the Agreement contemplates  
2 the parties' respective rights and obligations regarding the underlying trademark dispute.  
3 (*See* Doc. 26-1 at 5.)

4 At bottom, Defendants knowingly entered into a valid and enforceable agreement  
5 where they specifically stipulated that any material breach on their part would constitute  
6 irreparable harm to Plaintiff and would entitle Plaintiff to specific performance or  
7 injunctive relief. (Doc. 26-1 at 10.) A preliminary injunction from this Court is necessarily  
8 included in the scope of the remedies available to Plaintiff under the Agreement. In addition  
9 to the plain terms of the agreement, Plaintiff has also plausibly established that harm to its  
10 trademarks and goodwill will result if Defendants are not enjoined from their continuing  
11 breaches of the Agreement. Thus, the Court finds that Plaintiff has established that it will  
12 suffer irreparable harm in the absence of a preliminary injunction.

### 13 **C. Balance of Equities**

14 Plaintiff contends that the balance of equities tips in its favor because "Defendants  
15 have consciously chosen to expressly ignore their duties under a valid and enforceable  
16 agreement" and "have no legal right to use the HOUSTON'S Mark." (Doc. 26 at 16.)  
17 According to Plaintiff, "[p]reliminary injunctive relief will do nothing more than require  
18 Defendants to honor the obligations they voluntarily undertook in the Agreement." (*Id.*) If  
19 preliminary relief is granted, on the other hand, Defendants argue that it will be unfairly  
20 subject to a continual threat of being held in contempt of the preliminary injunction order  
21 even though it has taken steps to be in substantial compliance with the Agreement and the  
22 TRO. (Doc. 27 at 15.) The Court finds that the balance of equities tips in Plaintiff's favor.  
23 Defendants knowingly and freely entered into the Agreement. Their failure to abide by the  
24 terms that the parties bargained for continues to cause substantial hardship to Plaintiff, at  
25 least because Plaintiff must expend resources to continually monitor Defendants'  
26 performance with the Agreement. Moreover, although Defendants complain of the threat  
27 of being held in contempt of a preliminary injunction, Defendants assented to the term in  
28 the Agreement that their material breach would entitle Plaintiff to "injunctive relief to



1 enforce the Agreement’s terms.” (Doc. 26-1 at 10.)

#### 2 **D. Public Interest**

3 The public interest factor, unlike the balance of equities, “primarily addresses [the  
4 injunction’s] impact on non-parties rather than parties.” *Sammartano v. First Jud. Dist. Ct.*,  
5 303 F.3d 959, 974 (9th Cir. 2002), *abrogated on other grounds by Winter*, 555 U.S. at 7.  
6 Plaintiff argues that the public interest is served by “preventing deception and confusion in  
7 the marketplace” and “the enforcement of valid contracts.” (Doc. 26 at 16-17.) Defendants  
8 argue that an injunction is not in the public interest because the underlying action is for  
9 alleged breach of contract between two private parties. (Doc. 27 at 16.) Defendants further  
10 argue that Plaintiff’s arguments about preventing consumer confusion are inapposite  
11 because Plaintiff’s trademark infringement claims are not the subject of its motion for  
12 preliminary injunction. (*Id.*) Instead, Defendant contends that “the public interest is in  
13 allowing the parties to litigate the Lanham Act issues without unfairly causing prejudice to  
14 HHC by making a determination of harm in a vacuum before actually litigating the  
15 trademark issues.” (*Id.*)

16 The Court finds that this factor tips in favor of Plaintiff because the public interest  
17 is served when the courts enforce valid contracts, regardless of whether the dispute  
18 underlying the contract has been fully briefed to the court on a motion for preliminary  
19 injunction.<sup>4</sup> *Barclay v. Med. Show Land Tr.*, No. CV-12-1060-PHX-SMM, 2014 WL  
20 644558, at \*10 (D. Ariz. Feb. 19, 2014) (noting “the public’s interest in affording a  
21 performing party some remedy against a non-performing party.”)

#### 22 **E. Scope of the Preliminary Injunction**

23 Based on the parties’ positions at the January 4, 2023 oral argument, it does not  
24 appear to the Court that there are many outstanding issues remaining before Defendants  
25 are in full compliance with the TRO and the Agreement. Plaintiff’s motion identifies four  
26 outstanding issues: (1) signage at Defendants’ Green Valley and Cerritos locations;

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27 <sup>4</sup> It is not entirely clear to the Court from Defendants’ briefing how the entry of a  
28 preliminary injunction would “unfairly caus[e] prejudice” to Defendants’ ability to litigate  
against Plaintiff’s trademark infringement claims as this action progresses, or how that  
affects the Court’s analysis of what is in the public interest.

1 (2) Defendants’ social media accounts; (3) inadequate notices to franchisees regarding the  
 2 Agreement and the TRO; and (4) Defendants’ continued use of HOUSTON’S HOT  
 3 CHICKEN branded paper products and other packaging in each of their restaurants.

4 First, the Court notes that the parties agreed on the record that all of Defendants’  
 5 signage at each of their locations now complies with the TRO and the Agreement, such  
 6 that inclusion of this term in the preliminary injunction may not be necessary. Second,  
 7 regarding Defendants’ social media accounts, Plaintiff has identified multiple outstanding  
 8 issues remaining before Defendants are in full compliance with the TRO. (Doc. 19 at 1.)  
 9 Next, Plaintiff asserts that the notices to franchisees that Defendants furnished to Plaintiff  
 10 (Doc. 30-2) are inadequate because they do not identify the entity names for each  
 11 franchisee that was purportedly notified of the Agreement and TRO. Plaintiff requests that  
 12 Defendants supply additional proof that each of Defendants’ franchisees have been notified  
 13 of the Agreement and TRO in a manner that identifies which entity is associated with each  
 14 franchise.

15 Finally, the parties dispute whether Defendants’ use of paper products branded with  
 16 the HOUSTON’S HOT CHICKEN Marks is included in the Agreement. In Section 1(c),  
 17 the Agreement provides:

18 By November 10, 2022 . . . , [Defendant] HHC will  
 19 ***permanently cease all use of the HOUSTON’S HOT***  
 20 ***CHICKEN Marks***, and any other trademarks, service marks,  
 21 and trade names that include the terms “Houstons”,  
 22 “Houston’s”, or any confusingly similar term ***for restaurant,***  
 23 ***bar, catering, café, take-out food service, delivery food***  
 24 ***service, sauces, or any other food or beverage products***  
***related to restaurant services*** (collectively, the “Goods and  
Services”) and will direct and cause its franchisees to do the  
 same. . . .”

25 (Doc. 26-1 at 6) (emphasis added). The Agreement further provides:

26 For purposes of clarification, ***any Goods or Services offered***  
 27 ***by [Defendant] HHC under any trademarks, service marks, or***  
 28 ***trade names that include the terms “Houstons”,***  
***“Houston’s”, or any confusingly similar term . . . will not be***

1 sold in any restaurants or ***reference any restaurants in any***  
 2 ***way on any packaging***, labeling, advertising materials,  
 3 promotional materials, or marketing materials ***for the Goods***  
 4 ***and Services***.

5 (*Id.* at 6-7) (emphasis added). Defendants argue that there was not a “meeting of the minds”  
 6 as to whether Section 1(c) of the Agreement precluded Defendants’ use of paper products  
 7 branded with the HOUSTON’S HOT CHICKEN Marks such that the Agreement is  
 8 ambiguous on this point. Plaintiff disagrees.

9 “Under Arizona law, a contract is not ambiguous merely because the parties cannot  
 10 agree to its meaning; rather, an agreement is ambiguous only if the language can reasonably  
 11 be construed in more than one sense and the interpretation cannot be determined within the  
 12 four corners of the instrument.” *In re Bataa/Kierland LLC*, 496 B.R. 183, 192 (D. Ariz.  
 13 2013) (citing *D. Land Co. v. Killian*, 762 P.2d 124, 126 (Ariz. Ct. App. 1988)). The Court  
 14 finds that the plain language of Section 1(c) covers Defendants’ use of the HOUSTON’S  
 15 HOT CHICKEN branded paper products and other packaging. Section 1(c) unambiguously  
 16 prevents Defendants from using any term that includes “Houston’s” to identify their  
 17 restaurants or food services on any of their packaging or advertising materials.<sup>5</sup> *Ash v.*  
 18 *Egar*, 541 P.2d 398, 401 (Ariz. Ct. App. 1975) (“Interpretation of a contract is a question  
 19 of law for the court when its terms are unambiguous on its face.”); *see also Chandler Med.*  
 20 *Bldg. Partners v. Chandler Dental Grp.*, 855 P.2d 787, 791 (Ariz. Ct. App. 1993).  
 21 Defendants’ arguments to the contrary are without merit and are unsupported by the plain  
 22 text of the Agreement. *See Farnam Co., Inc. v. Stabar Enters., Inc.*, No. CV 03-503-PHX-  
 23 NVW, 2005 WL 3369473, at \*4 (D. Ariz. Dec. 12, 2005) (“The court [] applies a ‘standard  
 24 of reasonableness’ in determining whether language is susceptible to more than one  
 25 interpretation.”) (citing *Gesina v. Gen. Elec. Co.*, 780 P.2d 1380, 1386 (Ariz. Ct. App.  
 26 1988)).

27 Thus, the Defendants are in breach of the Agreement through continued use of the

28 <sup>5</sup> The Agreement provides that the Defendants’ use of marks that include “Houston’s TX Hot Chicken” is permitted use. (*See* Doc. 26-1.)

1 branded paper products. Defendants shall cease the use of any and all paper products and  
2 other packaging that incorporate or display the HOUSTON’S HOT CHICKEN Marks,  
3 including napkins, cups, tray liners, food boxes, bags, wrappers and any other items used  
4 in or sold by Defendants in their restaurants that bear the HOUSTON’S HOT CHICKEN  
5 Marks no later than Tuesday, January 10, 2023.

6 **F. Bond**

7 Because the *Winter* factors weigh in favor of granting Plaintiff’s Motion for  
8 Preliminary Injunction, the Court will consider whether a bond is required. Under Federal  
9 Rule of Civil Procedure 65(c), a court may grant preliminary injunctive relief “only if the  
10 movant gives security in an amount that the court considers proper to pay the costs and  
11 damages sustained by any party found to have been wrongfully enjoined or restrained.”  
12 Although this language appears to be mandatory, “Rule 65(c) invests the district court with  
13 discretion as to the amount of security required, if any.” *Johnson v. Couturier*, 572 F.3d  
14 1067, 1086 (9th Cir. 2009) (quoting *Jorgensen v. Cassidy*, 320 F.3d 906, 919 (9th Cir.  
15 2003)). Consistent with that discretion, “[t]he district court may dispense with the filing of  
16 a bond when it concludes there is no realistic likelihood of harm to the defendant from  
17 enjoining his or her conduct.” *Id.* Here, Defendants assert that a bond of \$50,000 is  
18 appropriate because they stand to incur up to \$100,000 in additional costs to comply with  
19 the preliminary injunction due to expenditures on paper products to replace the  
20 HOUSTON’S HOT CHICKEN branded paper products currently in use. Defendants  
21 contend that if they are enjoined from exhausting their current supply of branded paper  
22 products and the injunction is ultimately found to be wrongful, Defendants would have  
23 incurred those additional costs unnecessarily. The Court agrees with Defendants and finds  
24 that a \$50,000 bond is appropriate to ensure that Defendants will be able to collect any  
25 damages owed if victorious on the merits of Plaintiff’s claims.

26 **G. Conclusion**

27 Accordingly, Plaintiff’s Motion for Preliminary Injunction is granted in part, as set  
28 forth herein.

#### IV. PLAINTIFF'S MOTION FOR CONTEMPT

Plaintiff asks the Court to hold Defendants in contempt for violating the December 1, 2022 TRO. (Doc. 26 at 10-12.) Plaintiff seeks a coercive sanctions award of \$10,000 and an additional \$3,000 per day that Defendants fail to comply with the TRO and a compensatory sanctions award encompassing Hillstone's fees and costs incurred because of Defendants' failure to comply. (*Id.*) Plaintiff contends that Defendants violated and continue to violate the TRO by continuing to use HOUSTON'S HOT CHICKEN and related design marks on social media pages, signage, displays, and wall art, including paper products as displays. (*Id.* at 10.) Defendants respond that sanctions are inappropriate both because the TRO fails to comply with Federal Rule of Civil Procedure 65(c) requiring a bond and because Defendants have substantially complied with the requirements of the TRO and are actively addressing any remaining issues. (Doc. 27 at 2.) Although the Court denied Plaintiff's Motion for Contempt on the record at the January 4, 2023 hearing (Doc. 36), the Court will briefly expand on the reasons for denial of the motion here.

“The standard for finding a party in civil contempt is well settled: The moving party has the burden of showing by clear and convincing evidence that the contemnors violated a specific and definite order of the court.” *In re Dyer*, 322 F.3d 1178, 1190–91 (9th Cir. 2003) (quoting *In re Bennett*, 298 F.3d 1059, 1069 (9th Cir. 2002)). “The burden then shifts to the contemnors to demonstrate why they were unable to comply,” *F.T.C. v. Affordable Media*, 179 F.3d 1228, 1239 (9th Cir.1999), and to show “they took every reasonably step to comply,” *Stone v. City & Cnty. of San Francisco*, 968 F.2d 850, 856 n.9 (9th Cir. 1992). Upon a finding of contempt, district courts have discretion to award monetary sanctions to the moving party. *See McComb v. Jacksonville*, 336 U.S. 187, 193 (1949) (“We have no doubts concerning the power of the District Court to order respondents, in order to purge themselves of contempt, to pay the damages caused by their violations of the decree.”); *see also Int’l Union, United Mine Workers v. Bagwell*, 512 U.S. 821, 826–30 (1994) (describing different forms of contempt sanctions, including coercive or punitive detention and civil and criminal fines).

1 Plaintiff has established by clear and convincing evidence that Defendants have  
 2 failed to comply with the TRO by the December 6, 2022 deadline set forth therein, for the  
 3 reasons discussed above. Thus, the burden shifts to the Defendants to show that they made  
 4 reasonable efforts to comply with the TRO and cure their breaches of the Agreement. *See*  
 5 *Stone*, 968 F.2d at 856 n.9. Defendants argue that they have established substantial  
 6 compliance with the TRO and are continuing to take additional, reasonable steps to fully  
 7 comply with the TRO. Specifically, Defendants have demonstrated that they have replaced  
 8 all of the noncompliant signage in each of their restaurants to remove the prohibited marks,  
 9 changed the names of each of their entities, provided notices of the changes to at least some  
 10 of their franchisees, and have deleted thousands of social media posts to remove the  
 11 prohibited content. (Doc. 27-1, ¶¶ 28-37.) Defendants also aver that their last purchase of  
 12 HOUSTON’S HOT CHICKEN branded paper products occurred in September 2022 prior  
 13 to the execution of the Agreement, and they took active steps to order new, compliant paper  
 14 products beginning on November 30, 2022, after a hearing before this Court. (*Id.*, ¶¶  
 15 38-43.)

16 The Court does not find any evidence in the record of Defendants’ intentional  
 17 misappropriation of Plaintiff’s trademarks or intentional breach the Agreement or TRO.  
 18 Instead, the Court finds Defendants have demonstrated a sincere, reasonable effort to come  
 19 into full compliance with the Agreement and TRO such that sanctions are not warranted at  
 20 this stage.<sup>6</sup> Thus, the Court denies Plaintiff’s Motion for Contempt (Doc. 26).

21 ///

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24 <sup>6</sup> Defendants also argue that this Court committed clear error in failing to require Plaintiff  
 25 to post a bond in connection with the TRO, such that the TRO is invalid and they should  
 26 not be held in contempt of it as a result. (Doc. 27 at 16.) Defendants contend that  
 27 “[a]lthough a district court retains discretion as to the amount of the security required, if  
 28 any, the Ninth Circuit makes clear that the district court must consider arguments on the  
 issue to properly invoke its discretion.” (*Id.* at 16-17.) As rightly noted by Plaintiff,  
 Defendants failed to raise their arguments related to imposition of a bond at the TRO  
 hearing or in their subsequently filed revisions to the proposed TRO. Thus, the Court finds  
 that Defendants’ arguments under Rule 65 are waived. The Court retained discretion to  
 require a bond for the TRO and found that none was required based on the circumstances.

